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SUBJECT: REGIONAL INCOME GAPS: PRE-ELECTION FOCUS ON INCOME
DISPARITIES

REF: A. TOKYO 05962

[1](#)B. TOKYO 05903

[1](#)C. TOKYO 2558

Classified By: DCM Joe Donovan for reasons 1.4 b/d

Summary

[1](#)1. (SBU) As July,s Upper House election approaches, regional income disparities have emerged as a priority issue in the national conversation on growing income gaps. Ruling Liberal Democratic Party (LDP) politicians recognized as early as mid-2006 that the opposition Democratic Party of Japan (DPJ) would focus on income disparities during this election cycle, but the focus in late 2006 and early 2007 had primarily been on differences in individual incomes and opportunities (ref A), rather than Japan,s regions. In April 2007, the Bank of Japan,s regional economic report stated that the economy as a whole has expanded moderately, but the disparity between large industrial areas such as metropolitan Tokyo, metropolitan Osaka and Aichi prefecture, and more rural areas such as Hokkaido, Aomori and Okinawa prefectures, is widening amid overall economic recovery. The regional disparity issue may be third in line for national priorities, but this issue could hurt the LDP in rural areas that have traditionally been its stronghold. Moreover, in light of Japan's strained fiscal situation, the Japanese government may have to come to terms with the fact that some regions will be better off than others. End Summary.

Scale and Trend of Disparity

[1](#)2. (SBU) A look at income data from the Ministry of Health, Labor and Welfare (MHLW) confirms that people in Japan,s major urban areas are faring better than their rural counterparts. When compared to the 2006 average national income of about \$33,000, at current exchange rates, larger,

industrial areas had average annual incomes in the high \$30,000,s range, (with Tokyo around \$40,000) and, rural areas had average annual incomes in the high \$20,000,s range. The widest gap exists between Tokyo and Okinawa, where in 2006 the average income of Tokyo residents was almost double that of Okinawans. In addition to the greater Tokyo metropolitan area (including Chiba, Kanagawa, and Saitama prefectures), other leading areas included metropolitan Osaka and Aichi prefecture, where the city of Nagoya, center of Japan's automotive industry, is located. Those prefectures lagging behind the most include Aomori (northern Japan), Hokkaido and Okinawa. In 2006, out of all of Japan,s nine regions, only three had above average annual incomes: Kanto (metropolitan Tokyo), Kinki (metropolitan Osaka) and Chubu (Nagoya). The major metropolitan areas house about 47 percent of Japan,s total population, suggesting that the population is split in half between the "haves" and the "have nots."

¶3. (SBU) It is not surprising that the urban areas would have incomes higher than rural areas for three reasons: higher costs of living usually filter into higher wages in urban areas and the proportion of the working age population, who tend to have higher incomes, is higher in the major urban areas than in the regions. In addition, Japan,s relatively inefficient and protected domestic sectors, such as agriculture, are more prominent in the rural economy. However, even relatively speaking, rural areas are not realizing overall economic recovery as signaled by outward migration of the labor force, declining job opportunities, and a continuous fall in incomes.

¶4. (SBU) The widening of regional income disparities has

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grown over the past decade. In 1997, the number of prefectures well below the national average annual income (with a gap of close to \$10,000) was only four. By 2000, the number had increased to seven, and by 2005, (just four years after Koizumi,s reforms) the number of prefectures below average had grown to eighteen. Hokkaido is a quintessential example of this downward trend in incomes. Before 1997, Hokkaido was a member of the second tier among regions with average annual incomes close to the nation,s average. By 2005, it had joined the ranks of the third tier. By 2006, the problem had become so pronounced that one of Hokkaido,s former coal mining cities, Yubari, declared bankruptcy following a futile binge of egregiously wasteful public spending aimed at revitalizing the local economy.

Structural Reforms by Some Cited as Main Source

¶5. (SBU) Despite proof that regional disparities predated Prime Minister Koizumi,s structural reforms (ref A), there is a perception in the media that Koizumi's measures exacerbated the situation, and Prime Minister Abe has inherited some of that blame. Some, for example, fault the reduction in public works spending that accompanied Koizumi's fiscal belt-tightening, which hit rural areas particularly hard. Japanese media commentators have consistently noted that while Koizumi,s economic structural measures (i.e. deregulation and privatization) were aimed at revitalizing the national economy by first targeting the major metropolitan areas, in hopes of having those effects spillover to smaller localities, these policies actually resulted in lower land values, declining populations, and a lack of resources in rural areas, as people, goods and services became even more concentrated in Japan's urban centers.

The Opposition,s Perspective

¶6. (SBU) Hiroyuki Katsuura, the DPJ's Deputy General Manager of the Policy Research Committee, suggested to us that,

although structural reforms boost the overall economy, they exacerbate the regional disparity problem. In the past, local governments have relied on the central government for subsidies, public works, and resources and, as a result, were not held responsible for ensuring their district's economic health. In an effort to enhance the autonomy and fiscal responsibility of localities, Koizumi's reforms reduced subsidies, public works funding, and revenue sharing funds. He also said that it will take time for local governments to create jobs, raise funds and revitalize their economies. According to Cabinet Office reports, the regions most hit by the reduction in public spending were Hokkaido, Tohoku (northern Japan), Chubu (central Japan), and Shikoku (southwestern Japan).

Abe's Response

17. (C) The Abe Administration is addressing social disparities through a "second chance" program (ref B) designed to give part-time and non-regular workers new opportunities to enter the labor market. The second chance program, however, mainly addresses income disparities among individuals, and is not aimed at dealing with macro-level and regional disparities. Additionally, in its annual 2007 Basic Policies Agenda (the so-called "Big Boned Policy"), the Prime Minister's Council on Economic and Fiscal Policy (CEFP), which sets Japan's economic and budgetary priorities, advocated an "SME Productivity Improvement Project." This project acts as a regional version of the Industrial Revitalization Corporation of Japan (IRCJ), the entity

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created by the Japanese government in 2003 to help turn around failing large companies and due to disband in 2008. In a July 5 meeting with Ecouns, former METI Americas Division Director Keisuke Sadamori (currently seconded to the Cabinet Secretariat), believed that this project, aimed exclusively at reinvigorating local governments, regional financial institutions, and local small and medium-sized companies, will be ineffective for two reasons. The scale of the targeted firms is too small to make a major economic impact and to compensate for the overhead costs of establishing such a facility. Furthermore, METI already has a similar project established to revitalize local economies, Sadamori observed.

Impact on Elections

18. (C) According to recent Kyodo News Agency opinion polls, economic disparities as a campaign issue ranked third of five, following closely behind the pension (ref C) and political finance issues. While the pension issue will likely have the biggest impact on the July 29 Upper House elections, economic disparities may have a significant impact in the way the LDP campaigns. According to Embassy LDP contacts and political analysts, winning seats in the rural areas will be the deciding factor in these elections. Some 29 of 47 electoral districts (equivalent to Japan's 47 prefectures), are single-seat districts. Many of these 29 prefectures are in rural areas, the traditional stronghold of the LDP.

Comment

19. (C) Although other issues--notably the ongoing revelations of the deficiencies of Japan's public pension system-- will likely dominate the thoughts of voters, the widening gap between the country's main urban centers and its hinterlands generates angst among Japanese inculcated with the idea that Japan is a land of unparalleled social and economic equality. Any new government-led effort to stimulate growth in the localities by throwing money at them is just as likely to founder on the rocks of economic reality as its numerous

predecessors, further exacerbating Japan's fiscal woes.
SCHIEFFER